

Part I-B. A Zero Emission Vehicle Incentive Program Pursuant to the Budget Act of 2001 (ZIP II)

1.0 INTRODUCTION

The Legislature made funding available in the fiscal year 2001-2002 State Budget for use as grants to provide incentives for the purchase or lease of zero emission vehicles (ZEVs). These funds are available for expenditure through June 30, 2004 and may be used to provide grants of up to \$5,000 per vehicle pursuant to criteria established by the State Air Resources Board (ARB).

The expanded statewide ZEV incentive program will combine the existing statewide ZEV incentive program authorized by Assembly Bill (AB) 2061 and the funds appropriated in the Fiscal Year 2001-2002 State Budget. Staff will refer to the existing program as ZIP I and the new funds for ZEV incentives from the State Budget as ZIP II. The expanded statewide ZEV incentive program will be composed of ZIP I and ZIP II components. Available only through 2002, ZIP I grants, up to \$9,000 per vehicle, are awarded on a first-come-first-served basis to zero emission light-duty passenger cars and trucks capable of operation on freeways. The ZIP II grants, up to \$5,000 per vehicle, will also be awarded on a first-come-first-served basis and will be available for the purchase or lease of additional vehicles types through June 30, 2004.

In developing these guidelines, Staff consulted with ZEV stakeholders, through the ZEV Incentive Working Group, for suggestions regarding vehicle categories to be considered for ZIP II grants. Staff also held two public workshops and received a broad range of suggestions and opinions. Some stakeholders did not wish to expand the program and preferred that the incentive funds be reserved and allocated for grants in 2003 and 2004 for passenger cars and truck capable of operation on freeways. Some thought that all types of ZEVs should be treated equally to promote electric vehicle (EV) technology and that each ZEV should receive the maximum grant. Others said that ZEVs should be categorized by vehicle type and that the grant amount should vary by vehicle type. Some support ZEV incentives only for vehicles that meet the requirements of the ZEV regulation and would exclude vehicles such as motorcycles that are not recognized by the ZEV regulation. Many commenters suggested that staff consider factors such as vehicle suitability for a broad range of applications, manufacturing cost, compliance with safety standards, cost to consumer, vehicle range and maximum speed.

Staff's goal is to implement a single, continuous statewide program for ZEV incentives to enhance vehicle marketability in the near term, through June 30, 2004. However, ZIP I and ZIP II components will be administered in a manner consistent with authorizing legislation, especially in regards to establishing vehicle eligibility and incentive amounts.

The Fiscal Year 2001-2002 State Budget also provided additional funding for grants in the amount up to \$11,000 per vehicle to subsidize the purchase or lease of ZEVs to be used in fleets operating in areas of the state that are not in attainment with applicable air quality standards. Guidelines for implementing this program are provided in Part II of this report.

2.0 ZIP II PROGRAM ADMINISTRATION

This chapter describes how the ZIP II portion of the expanded statewide ZEV incentive program should be administered. Specifically, this chapter identifies where administration of ZIP II grants will differ from ZIP I grants. The Program Manager of the existing statewide ZEV incentive program (ZIP I) will administer an expanded ZEV incentive program that includes the ZIP II grant program. Air districts voluntarily administering ZIP I within their jurisdiction are encouraged to request to administer the expanded program. The Program Manager will have the same responsibilities as specified in the revised ZIP I guidelines. However, the Program Manager will administer ZIP II in a manner consistent with the Budget Act Language for fiscal year 2001-2002 and ZIP II guidelines approved by the Board.

2.1 Overview of Grant Payment Process

The Program Manager will use a single application and approval process for ZIP I and ZIP II grants. An overview of the grant payment process is provided in Part I-A, Section 2.5. However, a ZIP II grant will be paid in a single allotment for the full grant amount. As with ZIP I, a ZIP II grant may be paid directly to the grant recipient or the grant recipient may assign the grant to a participating vehicle dealer or lessor. The grant recipient may assign the ZIP II grant, whether the vehicle is purchased or leased.

2.2 Effective Date of ZIP II and Availability of Grants

The effective date of the ZIP II portion of the expanded statewide ZEV incentive Program will be the date of Board approval of the staff's proposed ZIP II guidelines. ZIP II grants will be available for eligible vehicles purchased or leased on or after the date of Board approval of these guidelines and on or before June 30, 2004. ZEVs purchased or leased prior to the effective date of the ZIP II program and guidelines are not eligible for ZIP II grants. It should be noted that ZEVs purchased or leased in 2002 and meeting the ZIP I eligibility criteria will receive the ZIP I grant amount, up to \$9,000, as long as ZIP I funds are available. An applicant may not receive both a ZIP I grant and a ZIP II grant for the same vehicle. However, an applicant may accept local program incentives.

3.0 ELIGIBILITY CRITERIA

The State ARB is authorized by Budget Act language for fiscal year 2001-2002 to establish criteria for ZIP II grants. This chapter provides the applicant and vehicle eligibility criteria.

3.1 Criteria for Applicant Eligibility

The applicant eligibility criteria for ZIP II grants will be the same as for ZIP I grants. Eligible applicants are individuals, local governments, public agencies, nonprofit organizations, and private businesses purchasing or leasing an eligible ZEV. Public agencies may include local, regional, state and federal government agencies and entities. However, federal agencies and entities only became eligible for ZIP I grants as of January 1, 2002.

3.2 Criteria for Vehicle Eligibility

The existing ZIP I program provides grants only for new zero emission light-duty passenger cars and trucks capable of operation on freeways. Consistent with the intent of AB 2061, the Board did not include other categories of vehicles in the ZIP I program. However, per Budget Act Language for Fiscal year 2001-2002, the Board is to establish the criteria for the new funds that are available for grants of up to \$5,000 per vehicle. The Legislature also expressed its intent that the Board consider the eligibility of low-speed vehicles or Neighborhood Electric Vehicles, or both, for ZEV incentives, in recognition of their contribution to achieving compliance with the ZEV mandate.

The ZIP I program guidelines note that currently available ZEVs can be separated into three different categories: Full-Function Zero Emission Vehicles (FFEVs), City Zero Emission Vehicles (CEVs), and Neighborhood Zero Emission Vehicles (NEVs). The passenger cars and trucks currently eligible for the ZIP I grant are in either the FFEV and CEV categories. Staff recognizes that there may be some overlap in the Full-Function and City EV categories. Although the ZEVs that are currently commercially available are all battery electric vehicles, staff recognizes that zero emission fuel cell vehicles may become available, particularly for fleet demonstrations, during the implementation of the expanded ZEV Incentive Program. It is not staff's intent to exclude zero emission fuel cell vehicles from being eligible for ZIP I or ZIP II grants.

The ZIP II program includes the four eligible vehicle categories: Full-Function Zero Emission Vehicles (FFEVs), City Zero Emission Vehicles (CEVs), Neighborhood Zero Emission Vehicles (NEVs), and Zero Emission Motorcycles (ZEMs). However, NEV and ZEM vehicle models will have restricted eligibility under certain specific circumstances described below. Staff will also evaluate the eligibility of fuel cell vehicle models on a case-by-case basis.

3.2.1 Vehicle Categories

Staff recognizes that there may be some overlap in vehicle categories, particularly in the FFEV and CEV categories, and is committed to work with the vehicle manufacturers to arrive at acceptable solutions for categorizing specific vehicle models. To be eligible for ZIP II grants, vehicle models must be ARB certified as new electric vehicles and must comply with all applicable Federal Motor Vehicle Safety Standards (FMVSS) and state safety standards. A table summarizing the FMVSS for a number of vehicle categories is provided in Appendix H.

- ◆ **Full-Function Zero Emission Vehicle (Full Function ZEV or FFEV) -** Vehicle models placed in the FFEV category are typically zero emission passenger cars and light-duty trucks that are capable of operation on freeways. Specialty fleet versions based on passenger car or light-duty truck chassis will be considered FFEVs. Vehicle models in the FFEV category are subject to the numerous FMVSS for passenger cars or light trucks, as applicable. FFEVs may be used in many typical passenger car and light-duty truck applications. Current and past FFEV models include two-seat pickup trucks, two-seat coupes, sedans, sport utility vehicles and minivans.
- ◆ **City Zero Emission Vehicle (City ZEV or CEV) -** Vehicle models placed in the CEV category may be similar to FFEVs and be suitable for many of the same applications. However, vehicle models that have manufacturer-imposed limitations or restrictions on their operation on freeways will be placed in the CEV category. CEVs and FFEVs are subject to the same FMVSS for passenger cars or light trucks. However, CEVs will typically be smaller in size, seat two passengers and have less range (miles that the vehicle can travel when starting with fully charged batteries) than FFEVs. CEVs are typically equipped with smaller battery packs, which reduces the cost to produce the vehicles. City EVs typically have lower top speeds than FFEVs. CEVs would be suitable for use as local commute vehicles in urban and city centers.
- ◆ **Neighborhood Zero Emission Vehicle (Neighborhood ZEV or NEV) -** Vehicles placed in the NEV category are zero emission low speed vehicles. Per California Vehicle Code (CVC) Section 385.5, a low speed vehicle is a motor vehicle, having four wheels on the ground and an unladen weight of 1,800 pounds or less, that is capable of propelling itself at a minimum speed of 20 miles per hour and a maximum speed of 25 miles per hour on a paved level surface. NEVs may be legally operated on public streets with maximum speed limits of 35 mile per hour or lower. Therefore, NEVs are particularly suited for operation in residential neighborhoods, planned communities, campus environments, business parks, and, possibly, transportation centers. Low speed vehicles are not subject to FMVSS applicable to passenger cars

and light trucks. Instead, low speed vehicles are subject to a single safety standard, Standard No. 500, that requires ten specific items of safety equipment.

- ◆ **Zero Emission Motorcycles (ZEMs)** - Fully-enclosed zero emission vehicles designed to travel on three wheels are motorcycles in the ZEM category. ZEMs are subject to the FMVSS applicable to motorcycles, which are less extensive than the FMVSS for passenger cars and light-duty trucks. Two-wheel motorcycles and three-wheel motorcycles not fully enclosed are not considered ZEMs for the purposes of the ZIP II grant program. Although ZEMs are not required by the ARB's Zero Emission Vehicle program and do not earn ZEV regulatory credit, staff recognizes that ZEMs may be well suited to many of the same transportation needs as FFEVs and CEVs. ZEMs provide a person who commutes alone with a lower cost, zero emission transportation option.

3.2.2 Eligible Vehicle Models

Vehicle models will be approved by ARB staff on a model year basis and placed on a List of Eligible Vehicle Models for ZIP I and ZIP II Grants (Appendix D). Manufacturers of vehicle models not currently on the list should request in writing to the Program Manager that their vehicle model be considered for addition to the list of eligible vehicle models. The written request should include a description of the vehicle model, the manufacturer's certification that the vehicle model meets all applicable state and federal safety standards and be accompanied by copies of the vehicle operation and service manuals and applicable warranties.

To be eligible, the vehicle models must meet the following criteria:

- ◆ The vehicle model has been certified by the ARB as a new electric vehicle or new zero emission vehicle.
- ◆ The manufacturer has certified that the vehicle model complies with all applicable federal and state safety standards, including applicable FMVSS.
- ◆ For NEVs only, a manufacturer has the option to enter into an agreement with the ARB to retire or forego ZEV regulatory credits earned from the production of a vehicle offered for sale in California and the placement of the vehicle into service. To use this option, the manufacturer must enter into an agreement with the ARB to retire or forego the ZEV regulatory credits earned by a specific vehicle model on a model year basis. NEV vehicle models, on a model year basis, not subject to such an agreement will not be eligible for ZIP II grants.

3.2.3 Vehicle Eligibility

To be eligible to receive a ZIP II grant, a vehicle must meet all the following criteria:

- ◆ The vehicle must be a new vehicle as defined in CVC Section 430.
- ◆ The vehicle must be purchased or leased on or after the effective date of the ZIP II program and on or before June 30, 2004. The effective date of the ZIP II Program is the date of Board approval of the proposed guidelines. If a vehicle is not available for immediate delivery, the date on which the vehicle dealer has accepted an applicant's vehicle order and a nonrefundable deposit will be considered the date of purchase or lease, provided the vehicle dealer has requested and received a grant voucher number to secure a "preauthorization" of a grant on behalf of the applicant.
- ◆ If leased, the vehicle must be leased for a minimum term of 36 months.
- ◆ There must be, at a minimum, a 36-month warranty on the vehicle and battery pack, consistent with Part I-A, section 3.2, Item 9. Vehicle and Battery Warranty.
- ◆ The vehicle must be registered with the California Department of Motor Vehicles (DMV) for use in California.

Vehicles will not be eligible for a grant under the following circumstances:

- ◆ The vehicle is not new, has been re-leased, is the subject of a lease assumption or has been transferred into California after previously having been registered out-of-state; or
- ◆ Vehicle is offered for lease, or is leased, for a minimum term less than 36 months.

Eligibility of imported vehicles with an exemption from applicable federal or state safety standards will be determined in a case-by-case basis. To be eligible, the vehicle must meet DMV registration requirements and be registered with the DMV for use in California.

4.0 INCENTIVES AND ALLOCATIONS

This section describes how grants will be distributed, the grant amount available for each vehicle category, and the allocation of grants.

4.1 Grant Amounts

Budget Act language limits the grants to an amount of up to \$5,000 per vehicle pursuant to criteria established by the Board. Grant amounts vary according to vehicle category. Staff considered suitability for a variety of applications, vehicle range, and price to the consumer in establishing grant amounts. FFEVs will be provided the maximum amount of \$5,000. Lesser grant amounts will be provided

for CEVs, NEVs and ZEMs. Table 1-B-1 below summarizes the vehicle categories and the grant amounts. The List of Eligible Vehicle Models provided in Appendix D includes specific grants amounts.

Vehicles in the FFEV category that are purchased or leased between October 1, 2000 and December 31, 2002, and meet applicable vehicle eligibility criteria of the ZIP I program may receive grants up to \$9,000, as long as ZIP I program funds are available. Otherwise, staff is proposing to provide vehicle models in the FFEV vehicle category with a grant amount of \$5,000. Vehicle models in the CEV category will be eligible for a grant amount of \$3,500.

The participation of NEVs will be limited in the incentive program. Manufacturers are expected to aggressively market NEVs in 2002, as NEVs are their least expensive compliance option to meet their ZEV mandate requirements. NEV production costs can be considerably lower than FFEV or CEV costs because NEVs can be equipped with smaller battery packs and can be designed to comply with fewer and less stringent applicable safety standards. Manufacturers will earn relatively high ZEV regulatory credit from the production and sale of NEVs in 2002, up to four ZEV credits per NEV. However, in recognition of the contribution NEVs make to the advancement of ZEV technology, manufacturers will be provided with a limited option to participate in the incentive program. NEV manufacturers will have the option of participating in the incentive program if they enter into a formal agreement with the ARB to retire, or forego, ZEV regulatory credits earned for a specific vehicle model on a model year or calendar year basis. In this case, staff recommends that a grant of \$1,000 be provided for eligible NEVs.

The grant amount for a ZEM will be determined on a case-by-case-basis for each eligible model. ZEM production costs are lower than for a typical FFEV or CEV because they can be equipped with smaller battery packs and can be designed to meet the less stringent safety standards for motorcycles. However, in recognition of the contribution of ZEMs to the advancement of ZEV technology and that manufacturers do not earn ZEV regulatory credit for ZEMs, staff will determine, on a case-by-case basis, the grant amount for individual models. However, staff will provide ZEMs that are capable of operation on freeways with a grant amount of up to \$2000.

Table 1-B-1: ZIP II Grant Amounts

Vehicle Category	ZEV Regulatory Credit	Grant Amount
Full Function ZEV	Yes	\$5,000
City ZEV	Yes	\$3,500
Neighborhood ZEV	Yes	No Incentive
	No, per manufacturer option	\$1,000
Zero-Emission Motorcycle (ZEM)	No	Up to \$2,000

4.2 Grant Allocation

The ZIP II program will be implemented statewide and grants will be awarded on a first-come-first-served basis. Applicants must receive delivery or take possession of an eligible vehicle before submitting an application for a grant to the Program Manager. However, upon the applicant submitting a vehicle order or purchase order to the vehicle dealer, the applicant or the vehicle dealer may request from the Program Manager a grant voucher number that guarantees availability of a grant. Processing time from application receipt to grant approval and check issuance will take 30 to 60 days. A single check for the entire amount of the grant will be issued to the applicant or, if the applicant has assigned the grant, to the participating lessor. An applicant may not receive both a grant from the ZIP I or the ZIP II programs and a grant from the Fleet Incentive Program for the same vehicle.

On a calendar quarter basis, staff will review grant applications and the award of grants to ensure, to the greatest extent possible, that all grant funds are used. Staff will consider manufacturer production plans, including the number of vehicles, type of vehicles, and production schedule. Staff will place a priority on ensuring that grant funds will be available, to the extent feasible, for incentives for FFEVs and CEVs in the October 2002-June 2004 time period.

5.0 SUMMARY

The additional appropriation made in the State Budget for ZEV incentives makes it possible for staff to implement an expanded statewide ZEV incentive program. The appropriation is available for expenditure through June 30, 2004 and may be used to provide grants of up to \$5,000 per vehicle pursuant to criteria established

by the ARB (ZIP II). The existing statewide ZEV incentive program authorized by AB 2061 (ZIP I) provides grants only through 2002. The expanded program will make grants available for the purchase or lease of additional types of ZEVs, including FFEVs, CEVs, NEVs, and ZEMs. With ZIP I, only FFEVs are eligible for grants.

Staff's goal is to implement a single, continuous statewide program for ZEV incentives to enhance vehicle marketability in near term, through June 30, 2004. However, the ZIP I and ZIP II components of the expanded program will be administered in a manner consistent with authorizing legislation, especially in regards to establishing vehicle eligibility and incentive amounts.

